

Message Text

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C O N F I D E N T I A L JIDDA 56

EXDIS

E.O. 11652: GDS

TAGS: EFIN, EAID, SA, US

SUBJECT: IMF RECYCLING AND SAUDI INVESTMENTS IN U.S.

SUMMARY: SAUDIS ARE SENDING DEPUTY GOVERNOR KHALID AL-GOSAYBI TO IMF MEETING IN JANUARY. GOVERNOR OF SAMA INFORMALLY SUGGESTS MARRIAGE OF U.S. IDEA TO IMF PROPOSAL. SAUDIS MAY BEGIN INVESTMENTS IN EQUITIES WITHIN COMING 2 OR 3 MONTHS. END SUMMARY

1. DURING CALL BY ASST SEC PARSKY, NEW SAMA GOVERNOR QURAYSHI SAID THAT FORCES IN THE CONGRESS WERE TRYING AGAIN SEPARATE THE ARABS FROM THE UNITED STATES. THE NEW FINANCIAL STRENGTH OF THE ARABS WAS BEING ATTACKED AND THEY WERE BEING PLACED IN A "CORNER" BY CONTRADICTORY REQUIREMENTS THAT THE ARABS SHOULD PRODUCE ALL THE OIL NEEDED, SELL IT AT A PRICE THAT WAS LOW, AND BE RESTRICTED IN THEIR INVESTMENTS. HE SAID THAT FRANKLY THEY WOULD HAVE TO REDUCE PRODUCTION AND RAISE PRICE IF THIS CONTINUED.

2. ASST SEC PARSKY SAID THAT THERE WAS A NEED FOR RECOGNITION THAT ARAB CAPITAL WOULD BE NECESSARY TO MEET CAPITAL REQUIREMENTS FOR EXPANDING U.S. INDUSTRY. WAS SAUDI
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ARABIA CONSIDERING EQUITY INVESTMENT? GOVERNOR QURAYSHI

SAID THE SAUDIS HAD BEEN THINKING ABOUT IT FOR SOME TIME AND HE THOUGHT THAT WITHIN THE COMING 2 OR 3 MONTHS THEY WOULD BEGIN MAKING SUCH INVESTMENTS SINCE THE U.S. WAS STILL THE BIGGEST MARKET, SOME OF IT WOULD BE INVESTED THERE "PROVIDED THE CLIMATE IS RIGHT." ASST SEC PARSKY SAID THAT HE WOULD PROVIDE THE GOVERNOR WITH THE TERMS AND LEGAL REQUIREMENTS THAT ALREADY EXIST SO THAT THERE WAS NO MISUNDERSTANDING. IN GENERAL, THE ONLY SENSITIVE AREAS WOULD BE THOSE INVOLVING DEFENSE. GOVERNOR QURAYSHI SAID THAT THEY WERE NOT INTERESTED IN INVESTING IN DEFENSE BECAUSE "WE ARE BANKERS" AND THE DEFENSE INDUSTRIES WERE RISKY. DEPUTY GOV KHALID AL-GOSAYBI SAID THAT ANY NEW RESTRICTIONS ON INVESTMENTS SHOULD AT THE LEAST BE "NONDISCRIMINATORY."

3. GOVERNOR QURAYSHI SAID THAT DEPUTY GOVERNOR AL-GOSAYBI AND PERHAPS ONE IMF EXPERT FROM THEIR STAFF WOULD REPRESENT THE KINGDOM AT THE IMF MEETING IN JANUARY (THIS IS A CHANGE FROM WHAT MINISTER OF STATE FOR FINANCE ABA AL-KHAYL WHO HAD EARLIER INFORMED US DEP MIN KHALID WOULD ATTEND). ASST SEC PARSKY DISCUSSED THE SAFETY NET CONCEPT POINTING OUT THAT IT WAS SUPPLEMENTARY TO BOTH OTHER FINANCIAL INSTITUTIONS AND PRIVATE SOURCE FINANCING OF BALANCE OF PAYMENTS AND OIL IMPORTS. GOVERNOR QUAYSHI SHOWED INTEREST IN THE IDEA OF INJECTING THE AMERICAN REQUIREMENTS FOR SUCH SPECIAL ASSISTANCE INTO THE SPECIAL IMF PROPOSALS. HE NOTED THAT THE U.S. PROPOSAL WAS BEING DESCRIBED AS THE "RICH MAN'S CLUB." ASST SEC PARSKY POINTED OUT THAT THE U.S. PROPOSAL ALSO CALLED FOR A TRUST FUND FOR POORER COUNTRIES BUT BOTH WERE AIMED AT ENCOURAGING COUNTRIES TO TAKE ACTION ON OIL CONSERVATION AND USING EXISTING INSTITUTIONS INCLUDING PRIVATE SOURCES FOR RECYCLING. GOVERNOR QURAYSHI SAID THAT HE WOULD BE INTERESTED IN FUTURE ARGUMENTS AND INFORMATION ON THE AMERICAN PROPOSAL.

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